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The Conference Board

Membership and Organization of Corporate Boards

Highlights are:

- *smaller boards*
- *higher ratio of outside directors*
- *more female and black directors*
- *one-year terms, cumulative voting significantly decreased*
- *director recruitment more organized, more difficult*

Research Report No. 940

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American Society of Corporate Secretaries, Inc.
1270 Avenue of the Americas
New York, New York 10020
(212) 765-2620

The Conference Board, Inc.
845 Third Avenue
New York, New York 10022
(212) 759-0900
RCA International Telex
237282 and 234465

The Conference Board, Inc.
Avenue Louise, 207-Bte 5
B-1050 Brussels, Belgium
(02) 640 62 40
Telex: 63635

The Conference Board, Inc.
1755 Massachusetts Avenue, N.W.
Suite 312
Washington, D.C. 20036
(202) 483-0580

The Conference Board of Canada
255 Smyth Road
Suite 100
Ottawa, Ontario, K1H-8M7
(613) 526-3280

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Membership and Organization of Corporate Boards

by Jeremy Bacon

A Research Report from The Conference Board

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From the President

The off-stage role of corporate boards is being replaced by higher visibility and greater public awareness of their responsibilities. The Conference Board feels that it is time to look at the membership and organization of these boards.

This report presents detailed information about the men and women that comprise today's boards, how they are being chosen and elected, and how boards are organized—particularly the chairmanship and committee structure. Included are such topics as how they get their job done, the frequency and length of meetings of both the full board and board committees, the commitment of major staff time to support the work of the board and its committees, and the incidence of advisory boards or councils.

We wish to thank the 589 companies that provided the information on which the report is based. All the respondents are members of the American Society of Corporate Secretaries. And our special thanks to the National Office of the Society for its help.

Preston Townley
President and CEO

Highlights

This report presents a comprehensive picture of corporate boards of directors in the United States as of 1989. It updates much of the information gathered in 1972 for a similar survey, but it also includes many new findings and tabulations that make this report significantly more useful than its predecessor.

The changes that are identified are evolutionary as have been most changes in directorship practices for many years. In fact, today's boards are quite similar to those of the early 1970s in several respects:

- **Membership is drawn largely from the same sources** of background and experience. Roughly half or more of all outside directors in each of the three industry groups have backgrounds in the three areas that have traditionally provided the most directors: manufacturing, finance, and law. In manufacturing companies, 63 percent of outside directors come from these three areas. And boards are still overwhelmingly male, and white.
- **Average board ages have changed little.** For example, the median age of manufacturing boards in the current survey is 59; in 1972 it was 58. (There has been no rush to recruit younger directors.)
- **The faces around the table do not change frequently.** The median length of service of outside members of the surveyed boards is nine years, a figure that indicates stability in the boardroom.
- **Boards meet with about the same frequency** as they did when the earlier survey was done. The current median is six meetings a year for both the manufacturing and nonfinancial service companies, nine meetings for financial companies.

On the other hand, boards have undergone some *changes:*

- **The proportion of outside directors has increased.** The boards of 86 percent of the manufacturing companies and 91 percent of the nonmanufacturing firms (financial and nonfinancial service a combined) have **a majority of outside directors.** The comparable figure in 1972 for manufacturers was only 71 percent. It is now rare to find a large company (in this survey, this means having sales or assets, depending on industry, of $3 billion or more) whose board does not have a majority of outsiders; only three percent of such manufacturing concerns and financial firms, and eight percent of nonfinancial service companies, of that size do not have a board on which employee directors are outnumbered by outsiders.

Where Respondents Are Incorporated

The companies that responded to the survey are variously incorporated in 48 different states, plus the District of Columbia. However, Delaware is the dominant choice by far; 41 percent of the companies are chartered there. The following tabulation, which lists only the 14 states represented in the sample by at least 10 companies, underscores the extent to which firms have chosen to operate under the laws of Delaware:

State	*Number of Companies Incorporated There*	*Percent of Total Respondents*
Delaware	233	41%
New York	38	7
Ohio	29	5
New Jersey	19	3
Pennsylvania	19	3
California	18	3
Massachusetts	15	3
Virginia	15	3
Maryland	13	2
Michigan	13	2
Washington	11	2
Wisconsin	11	2
Florida	10	2
Indiana	10	2

During the five years prior to the survey, almost 60 companies, or about 10 percent, changed their state of incorporation. Another eight firms (1 percent) said they anticipated changing their state of incorporation in the next year or so.

Such changes occurred least often among financial firms (5 percent) and were most evident in manufacturing (13 percent). Responses did not shed much light on the reasons behind these shifts, but other evidence makes it clear that in some cases the change is made to seek better protection from legal liability (including directors' liability) or to make a takeover more difficult.

• **There are more female and black directors.** Forty-one percent of the respondents have a woman on their board (60 companies have more than one), compared with only eight percent in 1972. And whereas only six percent of the 1972 respondents had a black director, that figure is now 21 percent overall—and for financial firms it is 29 percent.

• **There are many more nominating committees.** Nominating committees were unusual in 1972, when only eight percent reported one. This time, 58 percent have such a committee, and respondents say it has had a significant and positive effect on director recruitment.

Other findings of note:

• **The availability of cumulative voting has decreased.** The percentage of companies whose shareholders can use cumulative voting in elections of board members is down to 22 percent, a significant drop from the 32 percent reported last time. The decrease is due in part to takeovers; eliminating cumulative voting is a defense against them.

• **More than half of the responding companies now elect their directors to multi-year terms, usually three.** It used to be standard practice to re-elect all directors every year for a one-year term—81 percent of the companies did so in 1972. There has been a significant movement toward dividing the board into classes and having staggered elections, with only one class up for election in a given year. This change, too, has been spurred by takeovers, because having a staggered board makes it more difficult for a potential raider to gain significant representation on that board.

• In two-thirds of the companies, every outside director owns some of the company's stock.

• The incidence of foreigners on the board of U.S. companies has increased only slightly since 1972; 17 percent of the respondents report having one or more non-citizens as directors.

About the Survey Respondents

The bulk of the information in this report was gathered by means of a questionnaire in March and April of 1989. Of the 589 survey respondents, 268 are manufacturers, 140 are financial firms, and 181 are providers of a nonfinancial service. The following tabulation of cooperating companies by size shows that half of them have sales or assets of $1 billion or more (financial firms are measured by assets, all others by sales):

Company Size (Millions of Dollars)	*Number of Companies*	*Percent*
Under $100	76	13%
100-299	52	9
300-499	94	16
500-999	75	13
1,000-2,999	129	22
3,000 and over	163	28

The information in the report dealing with board committees comes from a survey—also done in 1989—on compensation of directors, to which there were 805 respondents. (See Jeremy Bacon, *Corporate Directors' Compensation, 1990 Edition*, The Conference Board, Report No. 936, 1989.)

In all but a few cases, the individuals responding to these two surveys are members of the American Society of Corporate Secretaries.

• Twenty-eight percent of the companies in the survey have had more difficulty in the past few years persuading candidates to join their boards.

• Only three percent say an institutional investor has expressed an interest in participating in the director selection process at their company. It would seem inevitable that this figure will be considerably larger in any future survey.

Chapter 1

Board Size and Composition

This chapter presents information about board size (number of directors). It also describes the composition of boards in terms of the ratio of outside to inside directors, the business or professional affiliations of outside directors and the positions held by inside (employee) directors, the extent to which outside directors hold shares of the companies on whose boards they serve, the incidence of directors having a possible conflict of interests with the company, and the incidence of women and members of minority groups on boards. Wherever possible, comparisons are made with earlier surveys to indicate trends.

Board Size

The medians and ranges of board sizes for the three major industry categories are:

Industry	*Median*	*Range*
Manufacturing (268 companies)	10	1-22
Financial (140 companies)	13	5-35
Nonfinancial service (181 companies)	10	2-22

As in prior surveys, both the median board size and the higher end of the range are larger for financial firms than in other industries.

Looking at the manufacturing sector by company size and comparing median board sizes with 1972 figures reveals that today's manufacturing boards are smaller. Table 1,* compiled for companies starting at the $200 million level, tells the story; boards average either three or four fewer members now than in the earlier survey. Even taking into consideration differences in the companies sampled and the fact that different measuring sticks were used (assets then, sales now), it seems safe to conclude that boards have become trimmer.

Past surveys have shown a connection between board size and company size in nonfinancial industries, and that connection is borne out again in the current study. Table 2 shows how median board size for both manufacturing and nonfinancial service companies gets larger as company size increases. For these industries, both of which have an overall median board size of 10, the median gets as high as 13 members for firms in the $3 billion-and-over bracket.

The connection between size of company and number of directors is more tenuous among financial institutions. However, the table does indicate that the median board size is largest (16) for financial firms in the largest size category of $3 billion and up—and close to half of the financial firms in the survey are clustered in this bracket. Note that the number of directors on such boards ranges as high as 34 members.

Maintaining a board of appropriate size and quality is a major, ongoing task for a majority of the survey respondents, presently and for the near future. Chapter 2 addresses the important process of finding, qualifying and electing directors—including the increasing reluctance of qualified people to accept invitations to join boards.

The Business and Professional Backgrounds of Outside Directors

Tables 3, 4 and 5 provide detailed information on backgrounds of nonemployee directors, in each of the three industry groups. In all three groups, manufacturing experience is the one from which the greatest number of directors has been drawn, financial experience is second. Academia now ranks as the third largest source of directors for nonfinancial boards; still, directors from the education field account for fewer than 10 percent of all outside directors. In fact, none of the other businesses or professions in the tables are represented by as many as 10 percent of the total directorships, with the exception that lawyers make up 10 percent of the outsiders serving on financial company boards.

The highest proportions of directors who are *retired* from their principle business or profession occur in the two nonfinancial categories. Twenty-eight percent of the outside directors of manufacturing companies are retired, as are 26 percent of outside directors of nonfinancial service compa-

* Tables are located at the end of each chapter.

nies. For financial firms, the percentage of retirees is only 19. These figures include those directors who have retired as corporate executives but still serve on the boards of their own companies.

Proportion of Outside Directors to Employee Directors

Proposals for increasing the independence of corporate boards often stress the importance of having outside directors in the majority. The number of companies whose board membership meets this criterion has been on the increase for more than two decades, as the current survey confirms.

Table 6 presents figures from Conference Board surveys done in 1966, 1972, and 1989. The table shows that this trend toward outside majorities on boards has accelerated since the early 1970s and has been especially significant in the manufacturing sector. For these tabulations, *former* employees serving on their company's board are counted as nonemployees, or outside directors.

Table 7, which also counts former employees as outside directors, shows that the larger the company, regardless of industry, the more likely that outside directors will outnumber corporate officers on its board. Fewer than five percent of manufacturing and financial companies in the largest size category have boards on which outsiders do not predominate.

There are those who argue that former employees should be considered as *insiders* in assessing the ability of the board's outside component to ask challenging questions about management's proposals and actions. Proponents of this view maintain that it is unrealistic to expect someone who spent at least the final part of his or her career as a top-level decision maker within the firm—and in the process forged personal relationships with other executives—to have the necessary independence and lack of personal identification regarding present management and its programs.

With this perspective in mind, the outside/inside board proportion figures for companies in the survey were recomputed. A stricter standard of independence, that assumes former employees on the board would tend to think as insiders, was used. Not surprisingly, the percentage of companies with a majority of outside directors is significantly lower than the figures shown in Tables 6 and 7. Here are the results by industry category:

Industry	*Percent of Companies Whose Boards Have a Majority of Nonemployee Directors (former employees counted as insiders)*
Manufacturing	49%
Financial	65
Nonfinancial service	50

Not everyone subscribes to the view that former employees lack independence. It has been the experience of some chief executives that their former fellow executives on the board enjoy the freedom to think independently in their role as directors, and their knowledge of the company means that they know where to probe.

In any event, movement in the direction of greater representation by outsiders on boards has clearly been underway. In fact 27 percent of the respondents indicated that they have intentionally made changes to increase that proportion in the last 10 years.

Some changes in board size or composition at surveyed firms have come about as a result of a corporate upheaval or other development, as this tabulation illustrates:

Reason for Change in Board Size and/or Composition	*Number of Companies*	*Percent*
Acquisition or merger	82	14%
Downsizing or restructuring	35	6
Legal or regulatory decision or settlement	12	2

Outside Directors with Potential Conflicts of Interest

The preceding sections address the degree to which outside directors are independent of management—at least technically. This section will further examine independence by concentrating on certain kinds of directors whose relationship with the company create a potential for conflicts of interest. The result of such conflicts could be interference with the director's ability to exercise independent judgment, at least on matters where such a conflict was present.

When the New York Stock Exchange drafted its policy, effective as of 1978, requiring that listed companies have an audit committee, it took the difficult step of defining the standard of independence from management or the company that would comply with audit committee membership requirements. Other organizations, individuals and commentators on corporate governance have also pointed to relationships that might compromise a director's independence. This survey provides a count of the prevalence of the following kinds of director/company relationships that fall into this category:

- Commercial bankers customarily used by the company
- Investment bankers customarily used by the company
- Attorneys customarily used by the company
- Major customers of the company; and
- Major suppliers to the company

Of the directors listed, lawyers whose firms have an ongoing company client/relationship are found most often, as shown in Table 8.

Another perspective is provided in Table 9, which shows how many companies have *none* of the kinds of directors being discussed here. As can be seen, a majority of surveyed boards—over six out of 10 in manufacturing—do not have one such director.

There is another relationship that has been identified as having conflict-of-interest potential, and it is the director who also provides (or represents a firm that provides) substan-

tial paid consulting service to the company. One-fourth of the sample (26 percent) have at least one outside director who fits that description. Some argue that such a board member could find it difficult, for example, to exercise independent judgment when discussions or proposals have a bearing on services that this director has provided, or systems adopted at his or her recommendation. The New York Stock Exchange's policy on audit committees makes a useful distinction between a consultant-director who performs a service *for the board of directors*—which would not disqualify him or her from audit committee membership—and one with an ongoing material consulting relationship with *management*. The latter relationship is considered more likely to have the potential for presenting the affected director with a conflict situation. However, this survey did not make such a distinction, and the 26 percent figure includes all paid consulting relationships present on the board.

Other Outside Directors of Special Interest

Women: Overall, 41 percent of the companies (243) have at least one female board member—a hefty increase over the eight percent reported in 1972.

Of the 44 industries represented in the survey, 38 have at least one company on whose board a woman (or women) serves. But the figures in Table 10 show that (1) manufacturing companies lag others in appointing women to their boards (34 percent have done so), and (2) most companies with female directors have but one, although about 50 firms in the sample have two, and 10 have even more.

The individual industries listed below stand out in terms of the percentage of companies having female directors; note that industrial products companies as well as consumer products and service companies are included in the roster (which includes only industries represented by at least 10 companies):

Industry	*Percentage of Companies with Female Directors*
Mutual insurance	75%
Diversified nonmanufacturing	71
Telephone service	60
Food	56
Paper	56
Commercial banking	50
Drugs, pharmaceuticals	45
Machinery	45
Electric and gas utility	41
Printing, publishing	38
Savings institution	36
Miscellaneous consumer products	32
Chemicals	31
Department stores, other nonfood retail	31
Gas utilities	30

Table 11 shows the prevalence of companies having female directors from the perspective of company size, and it indicates that large firms are more likely than smaller ones to invite women to serve.

Blacks and other minority-group members: Black directors serve on 21 percent of the surveyed boards. The total number of blacks on the 121 boards where they are found is 144. In 1972, only 6 percent of companies reported any kind of minority-group representation on their boards. In percentage terms, blacks have made obvious strides in gaining access to the board room, but in numbers the gain is less significant, since blacks comprise only three percent of all outside directors.

Both industry and company size analyses are pertinent in assessing where black directors are to be found. Table 12 shows that the percentage of financial firms with black directors is about twice as high as it is in manufacturing—29 percent versus 15 percent—with nonfinancial service firms in between at 23 percent. And it is broadly true that the great majority of black directors are on boards of companies in the largest size category. For example, 32 of the 39 manufacturing companies with black directors have sales of $3 billion or more. Similarly, 32 of the 40 financial firms with such directors are in the largest. The exception is the nonfinancial service area, where only half of the 42 companies with black directors have $3 billion or more in sales.

A small fraction of the surveyed boards—five percent, or 29 companies—have members of minorities other than blacks (Table 12). Of the total of 53 such directors, 41 are identified as Hispanic and 2 as Oriental (the remainder were not categorized).

Non-U.S. citizens: Exactly 100 firms, or 17 percent, have one or more directors who are not citizens of the United States. This is higher than the 12 percent figure in the 1972 survey, but the gain is not what one might expect in view of the strong trend toward internationalization of business enterprise during the interval between these surveys. One might also expect that the incidence of foreign directors would be higher among multinational companies than among companies in general, and, in fact, that is the case; the percentage of firms with such directors is twice as high—33 percent—among the 192 companies that identified themselves as multinational in scope. (The criteria used for qualifying as multinational is as follows: If the company receives a significant portion of its revenue from outside the U.S., or has major manufacturing or other operations in other countries.)

Foreign directors are found more often on manufacturing boards than in other industries, as the following tabulation—which is based on all companies, not multinationals alone—indicates:

Industry	*Percent of Companies with at least One Non-U.S.-Citizen Director*
Manufacturing	24%
Financial	14
Nonfinancial service	9

Other measurements show that non-citizen board members are found *predominantly* in manufacturing. For example, of the total of 205 such directors, 133—about two-thirds—are on manufacturing boards. This may well be because manufacturing firms account for fully 80 percent of the 192 companies with significant revenues and/or operations outside the United States.

Table 13 shows that while large companies are somewhat more likely to have non-U.S. citizens on their boards, such directors also sit on boards of companies in all size ranges.

It needs to be noted here that the above figures concerning non-citizens *include employee directors.* This is significant because such insiders—employees of the parent or of subsidiaries or affiliated firms—account for a *majority* of the foreign directors reported (127 of them, or 62 percent).

Respondents who have no non-citizens on their boards were asked to give reasons why. As indicated in the following tabulation, the overwhelming response was "no particular reason:"

Why Company Has No Foreign Director	*Number of Companies*
No special reason	307
There is a legal prohibition against it [usually industry-related]	17
There is a corporate policy against it	16
No suitable candidate has been found	15

It would not appear that adding non-U.S.-citizen board members is a high priority for most U.S. companies. Just five percent of manufacturing companies and two percent in both the financial and the nonfinancial service industry categories are considering it.

Former chief executives of the company: It is a common corporate practice to require employees who hold board seats to leave the board when they retire from company employment. However, many such policies exempt those who have been chief executives. The survey indicates that ex-chairmen and/or presidents constitute three percent of the former employees still serving on the boards of their firms. And almost one in five companies reports that the former CEO is not only a director but also has an influential position such as the chairman of a key board committee; this situation tends to prevail somewhat more often in manufacturing than in other industries, as Table 14 shows.

There is a school of thought that believes the presence of the former chief executive on the board of has disadvantages that offset the advantages of detailed knowledge of the organization and an element of continuity. Certainly, not every incoming CEO is enthusiastic about having his (or her) predecessor looking over his shoulder and assessing his performance.

Indeed, some companies have policies that either prevent or limit board membership for the outgoing chief executive. Thirty percent of the survey respondents (177 companies) place limits on how long a former CEO can continue to serve as a director—for example, one or two years beyond retirement as an employee. A much smaller group of firms either formally rules out board membership for ex-CEOs (40 companies) or has a company tradition or custom against it (16 companies). In 13 companies the former chief executive is not on the board because of personal circumstances or preference.

Stock Ownership by Outside Directors

Overall, exactly three-fourths of the companies say that every outside director owns company stock. This figure varies little for the three industry groups. However, company size does make a difference, as shown by Table 15. About 90 percent of the largest manufacturing and nonfinancial service firms say that all nonemployee directors are company shareholders. The median per-director value of stock owned was $100,000. But the median for the least amount of stock owned was $9,000.

As a rule, investment in company stock by outside directors of these firms is a matter of the directors' own choosing, since only 16 percent of the respondents require shareholder status for board membership (and eight percent specify in the corporate charter or a bylaw that a director does not have to own stock to qualify for membership). But another 38 percent report that directors are expected to own stock.

Among the 16 percent minority that does require ownership, financial firms are most likely to have such a policy. In fact 29 percent of the financial companies in the $3 billion-and-over category have an ownership requirement. But a requirement for stock ownership is not closely related to company size in any of the three industry groups.

Some companies (9 percent) have taken an initiative in this matter, mading payments or giving grants to their outside directors or, more frequently (29 percent) devised plans that encourage directors to acquire stock. A stock option plan is the most common approach in the latter case. Details of stock plans for outside directors are included in *Corporate Directors' Compensation, 1989 Edition,* Conference Board Report No. 922 (1989).

Employee Directors: Their Titles and Functions

There were over 1,500 employees serving on the boards of the 589 surveyed companies. Table 16 shows who these inside directors are in terms of the titles they hold. Not surprisingly, the titles of the chairman, president, chief executive officer (tabulated separately only if it is "reported" separately from the two preceding titles), and chief operating officer (combined with 'president' in this table) account for a little over half of the insiders on the surveyed boards. Third in numbers are those having the title of senior, executive or group vice president—roughly a third of all inside directors are in this category.

There is another way of looking at who in the corporate ranks gets tapped to serve on the board, and that is to exa-

mine what *functions* or areas of responsibility they hold. This approach provides an indication of what functions carry the greatest weight within the companies themselves, but it also shows which aspects of corporate affairs the outside board members are exposed to at first hand and, by implication, which ones they are less likely to be exposed to in this way. (Outside directors are apt to hear presentations by a variety of key executives, but this provides the directors with far less information about a corporate function and the person running it than they can get from having that person work with them as a fellow director.)

Table 17 shows the extent to which various corporate functions or areas are represented on boards through board membership. The executive and operational management at the top head the list. This is especially true in manufacturing and in nonfinancial service firms, where almost 60 percent of all inside directors are in one or the other of these top-level categories.

Among the other functions listed in the table, finance is the one most often represented on the board. Even so, financial executives comprise only about 10 percent of all inside directors, and other functions are found even less frequently than that.

These tables show that outside directors have little first-hand exposure to corporate people—and functions—other than the CEO, top-level general management, and the chief financial officer. Among other things, this situation creates a challenge to provide the outside board members with the necessary amount of quality information about corporate matters so that they can do their job effectively.

Table 1: Median Board Size in Manufacturing Companies, by Company Size; 1972 and 1979

Size Category[1] (Millions of Dollars)	*Median Number of Board Members*	
	1972 (244 Companies)	*1989 (191 Companies)*
$200-499	*12*	*9*
500-999	*14*	*10*
1,000 and over	*14*	*12*

[1]*Measured by assets in 1972, sales in 1989.*

Table 2: Size of Corporate Boards, by Company Size, in 579 Companies[1]

Industry Category	*Numbers of Directors, by Company Size Categories[1] (Millions of Dollars)*											
	Under $100		*$100-$199*		*$200-$499*		*$500-$999*		*$1,000-$2,999*		*$3,000 and over*	
	Range	*Median*	*Range*	*Median*	*Range*	*Median*	*Range*	*Median*	*Range*	*Median*	*Range*	*Median*
Manufacturing (261 companies)	4-11	7	4-16	7	4-13	9	4-14	10	1-16	12	8-22	13
Financial (139 companies)	7-20	12	6-19	9	5-21	12	8-24	11	5-35	12.5	5-34	16
Nonfinancial service (179 companies)	1-12	7	4-11	7	2-18	10	7-15	9	6-17	11	3-22	13

[1]Measured by sales for manufacturing and nonfinancial services, assets for financial.

Table 3: Business or Professional Affiliations of 1,880 Outside Directors[1], in 261 Manufacturing Companies

Business or Profession	*Number of Directors*		*Percent of Total Outside Directors*
Manufacturing		695	37%
Financial:			
Investment banking	*116*		
Commercial banking	*79*		
Other financial service	*113*		
Total financial		308	16
Education		168	9
Former company employee		135	7
Law		125	7
Private investor		85	5
Former government official		58	3
Merchandising		39	2
Insurance		32	2
Professional director		32	2
Utility, telephone company		31	2
Consulting		22	1
Broadcasting, telecommunications		19	1
Medical, healthcare		17	1
Construction, engineering		14	1
Transportation		14	1
Foundation, cultural institution		13	—
Real estate		9	—
Major shareholder representative		7	—
Other nonfinancial service		30	2
Other		25	1

[1]Twenty-eight percent of the directors in this tabulation are *retired* from their primary business or profession.

Table 4: Business or Professional Affiliations of 1,383 Outside Directors[1], in 139 Financial Companies

Business or Profession	*Number of Directors*		*Percent of Total Outside Directors*
Manufacturing		427	31%
Financial:			
Commercial banking	*63*		
Investment banking	*41*		
Other financial service	*99*		
Total financial		203	15
Law		138	10
Insurance		84	6
Private investor		81	6
Education		78	6
Merchandising		48	3
Former company employee		45	3
Former government official		39	3
Real estate		34	2
Utility, telephone company		30	2
Construction, engineering		26	2
Medical, healthcare		24	2
Professional director		22	2
Consulting		15	1
Broadcasting, telecommunications		15	1
Agriculture		13	1
Foundation, cultural institution		10	1
Transportation		9	1
Other		42	3

[1]Nineteen percent of the directors in this tabulation are *retired* from their primary business or profession.

Table 5: Business or Professional Affiliations of 1,332 Outside Directors, in 175 Nonfinancial Service Companies

Business or Profession	*Number of Directors*		*Percent of Total Outside Directors*
Manufacturing		325	24%
Financial:			
Commercial banking	*107*		
Investment banking	*49*		
Other financial service	*99*		
Total financial		255	19
Education		113	8
Law		97	7
Former company employee		90	7
Insurance		68	5
Private investor		68	5
Merchandising		51	4
Former government official		31	2
Real estate		30	2
Construction		26	2
Consulting		25	2
Utility, telephone company		20	2
Professional director		17	1
Medical, healthcare		12	1
Foundation, cultural institution		12	1
Transportation		11	1
Broadcasting, telecommunications		10	1
Agricultural		10	1
Hotels, entertainment		6	—
Other		55	4

[1]Twenty-six percent of the directors in this tabulation are *retired* from their primary business or profession.

Table 6: Percent of Companies Whose Boards Have a Majority of Nonemployee Directors, by Industry Category on Audit Committees[1]

	Percent of Companies with a Majority of Unemployee Directors		
Industry Category	*1966 (753 Companies)*	*1972 (851 Companies)*	*1989 (589 Companies)*
Manufacturing companies	63%	71%	86%
Nonmanufacturing companies	85%	86%	91%

[1]*Former* employees serving on the boards of their companies are counted as "nonemployee," or outside, directors in this table.

Table 7: Percent of Companies Whose Boards Have a Majority of Nonemployee Directors[1], in 589 Companies, by Company Size[1]

Size Category (Millions of Dollars)	*Percent of Companies with, a Majority of Nonemployee Directors*		
	Manufacturing (268 Companies)	*Financial (140 Companies)*	*Nonfinancial Service (181 Companies)*
Under $100	70%	83%	81%
100-199	79	86	88
200-499	83	85	88
500-999	85	92	93
1,000-2,999	92	94	94
3,000 and over	97	97	92

[1]*Former* employees serving the boards of their companies are counted as "nonemployee," or outside, directors for purposes of this table.

[2]Measured by sales for manufacturing and nonfinancial services, assets for financial.

Table 8: Frequency with which Directors Having Specified Potential Conflicts of Interest Are Reported; by Industry Group

Affiliation Creating Potential Conflict of Interest	*Percent of Companies Having Such Directors*		
	Manufacturing (268 Companies)	*Financial (140 Companies)*	*Nonfinancial Service (181 Companies)*
Representative of:			
Law firm customarily used by company	21%	29%	23%
Major customer of company	3	19	13
Commercial bank customarily used by company	11	8	19
Investment banking firm customarily used by company	11	5	7
Major supplier to company	3	6	4

Table 9: Companies Having No Directors With a Potential Conflict of Interest Affiliation[1], by Industry Category

Industry Category	*Number of Companies*	*Percent*
Manufacturing companies	165	62%
Financial companies	73	52%
Nonfinancial service companies	98	54%

[1]Refers to the following affiliations; an investment banker representing a firm whose services are customarily used by the company; a commercial banker with such a major client-customer relationship; an attorney with such a relationship; a representative of a major supplier to, or customer of the company.

Table 10: Number and Percent of Companies Having Female Directors, by Industry Category

	Manufacturing (268 Companies)		*Financial (140 Companies)*		*Nonfinancial Service (181 Companies)*	
Number of Female Directors	*Number of Companies*	*Percent*	*Number of Companies*	*Percent*	*Number of Companies*	*Percent*
1	65	24%	52	37%	68	38%
2	20	8	12	9	17	9
3	4	2	2	1	—	—
4	1	—	1	1	1	1
Totals	90	34%	67	48%	86	48%

Table 11: Percent of Companies Having at Least One Female or at Least One Black Director, by Company Size

Size Category[1] *(Millions of Dollars)*	*Industry Category*		
	Manufacturing	*Financial*	*Nonfinancial Service*
Have a Female Director:			
Under $100	7%	50%	31%
100-199	7	—	6
200-499	18	35	35
500-999	27	33	43
1,000-2,999	39	44	53
3,000 & over	74	62	85
Have a Black Director:			
Under $100	—%	33%	4%
100-199	—	—	6
200-499	5	5	9
500-999	—	8	17
1,000-2,999	8	16	31
3,000 & over	53	49	54

[1]Measured by sales for manufacturing and nonfinancial service, assets for financial.

Table 12: Numbers of Black and Other Minority Directors, by Industry Category

Type and Number of Director	*Manufacturing (268 Companies)*			*Financial (140 Companies)*			*Nonfinancial (181 Companies)*		
	Number of Directors	*Number of Companies*	*Percent of Companies*	*Number of Directors*	*Number of Companies*	*Percent of Companies*	*Number of Directors*	*Number of Companies*	*Percent of Companies*
Black:									
1	34	34	13%	31	31	22%	35	35	19%
2	10	5	2	16	8	6	14	7	4
4	—	—	—	4	1	1	—	—	—
Subtotals	44	39	15%	51	40	29%	49	42	23%
Other minority representatives:*	8	8	3%	10	8	6%	35	13	7%

*2 are Oriental; remainder are Hispanic

Table 13: Companies Having at Least One Non-U.S.-Citizen Director, by Company Size

Size Category[1] (Millions of Dollars)	*Number of Companies*	*Percent*
Under $100	11	15%
100-199	8	15
200-499	11	12
500-999	7	9
1,000-2,999	27	21
3,000 and over	36	23

[1]Measured by sales for manufacturing and nonfinancial service, assets for financial.

Table 14: Companies Whose Former Chief Executive Remains a Director and Has an Influential Board Position, in 355 Companies

Industry Category	*Number of Companies*	*Percent*
Manufacturing	59	22%
Financial	24	17
Nonfinancial service	29	16

[1]Chairman of the board, chairman of executive or other influential committee.

Table 15: Companies Where Every Nonemployee Director Owns Company Stock, by Company Size

	Manufacturing (246 Companies)		*Financial (125 Companies)*		*Nonfinancial Service (179 Companies)*	
Size Category[1] (Millions of Dollars)	*Number of Companies*	*Percent*	*Number of Companies*	*Percent*	*Number of Companies*	*Percent*
Under $100	29	66%	2	67%	17	65%
100-199	20	69%	2	29%	6	38%
200-499	30	79%	13	72%	26	77%
500-999	20	61%	9	82%	21	72%
1,000-2,999	49	82%	23	79%	28	80%
3,000 and over	52	87%	43	75%	35	90%

[1]Measured in sales for manufacturing and nonfinancial service, assets for financial.

Table 16: Titles of Employee Directors, by Industry Category

	Number and Percent of Employee Directors					
	Manufacturing (265 Companies)		*Financial (135 Companies)*		*Nonfinancial Service (177 Companies)*	
Corporate Title of Director	*Number of Such Directors*	*Percent of All Employee Directors*	*Number of Such Directors*	*Percent of All Employee Directors*	*Number of Such Directors*	*Percent of All Employee Directors*
Chairman of the Board	192	27%	99	25%	120	28%
President, chief operating officer	172	24	104	26	122	28
Chief executive	22	3	6	2	6	1
Vice chairman	55	8	44	11	29	7
Chairman or president of a subsidiary or affiliate	18	3	30	8	20	5
Group chairman, president	12	2	—	—	8	2
Senior/executive/ group vice president	150	21	67	17	99	23
Vice president	58	8	15	4	19	4
General counsel, corporate secretary	7	1	5	1	1	—
Other	25	4	26	7	10	2

Table 17: Functional Area or Responsibility of Employee Directors, by Industry Category

	Number and Percent of Employee Directors					
	Manufacturing		*Financial*		*Nonfinancial Service*	
Functional Area or Responsibility	*Number of Such Directors*	*Percent of All Employee Directors*	*Number of Such Directors*	*Percent of All Employee Directors*	*Number of Such Directors*	*Percent of All Employee Directors*
Chief executive (chairman or president, parent company)	263	38%	133	35%	173	41%
Operations	156	22	72	19	91	21
Finance	63	9	37	10	50	12
Group or sector management (other than chairman or president)	51	7	47	12	18	4
President or chairman of a subsidiary	42	6	49	13	35	8
Administration	24	3	7	2	14	3
Marketing, sales	18	3	5	1	5	1
Chairman of the board NOT CEO	16	2	9	2	15	4
Planning/corporate development/ acquisitions and mergers	14	2	3	1	3	1
Legal	12	2	9	2	12	3
R and D/science/engineering/ product development	12	2	—	—	1	—
Public relations, public affairs	4	1	2	1	4	1
Corporate secretary	2	—	1	—	1	—
Regulatory compliance	1	—	—	—	1	—
Other	21	3	12	3	4	1

Chapter 2:
Recruitment and Election of Directors

Finding qualified candidates for their boards is a major concern and an ongoing process for a majority of the respondents. There have been some changes in that process, as well as changes in the process by which directors are elected to their positions.

Searching for Candidates

Twelve percent of the respondents overall said they were searching for candidates to fill *existing* vacancies on their boards. This figure is very similar in the three industry groups, and there is no particular pattern related to company size.

Differences do pertain in the case of the much larger group of companies—70 percent in all—that are anticipating having to *replace* directors in the near future due to retirement. This near-term replacement need is most often reported by financial firms (75 percent), especially in comparison to nonfinancial service firms (67 percent). Also, it tends to be the larger companies—in both of the nonfinancial categories but especially in manufacturing—that are anticipating replacement needs; 92 percent of the $3-billion-bracket manufacturers foresee this recruiting challenge.

Replacing directors who leave does not increase the size of the board, of course; it represents the effort required just to keep the board at its present level of membership. Eleven percent of the respondents indicate that they have plans to *enlarge* their boards by adding one or more directors. The intention to elect additional directors is slightly more prevalent in manufacturing (13 percent) than in the other industries; but there is no company size relationship.

Resistance to Accepting Nominations

Twenty-eight percent of the respondents say they have found it more difficult to recruit nominees for board seats in recent years. This problem is pretty much uniform across the industry groups, as the figures below show:

Industry	*Percent of Companies Reporting Greater Difficulty Recruiting Board Candidates*
Manufacturing	29%
Financial	26
Nonfinancial service	26

However, the reluctant-candidate problem is felt most keenly by the big manufacturing companies ($3 billion and over in sales); 48 percent of these large industrial firms have experienced difficulty recruiting for their boards.

Why are potential board candidates balking? According to the survey, there are two major obstacles, and they are mentioned by a similar percentage—60 percent—of companies that have faced this problem. One is the prospect of exposure to liability, and the other is simply the amount of time and work involved in being a director today. Twenty-one percent cited other problems, such as potential conflicts of interest and schedule conflicts. (The percentages here add up to more than 100 because a number of respondents cited more than one reason for reluctance on the part of potential nominees.)

A closer look at the relevant figures shows that, for the most part, the problem bears no relation to company size; small firms as well as giant ones are running into this difficulty. However, Table 18 shows that the liability question affects some individual industries more than others when they approach potential board members. Some of the industries in the table have experienced significant legal and/or regulatory challenges over the past decade, with a high level of litigation being one result. Note that the percentages in the table are based on the total number of companies in the industries represented, whereas the percentages in the preceding paragraph are based on those companies that reported problems in recruiting.

There is little reason to believe that selling people on the idea of sitting on a board will become easier, at least for a time. Nothing in the foreseeable future will reduce the time required for diligent service. And although the outlook for liability as it affects directors is difficult to predict, the very uncertainty of this area will no doubt remain a concern for potential board members.

The Impact of Nominating Committees

Fifty-eight percent of the respondents have a nominating committee—or other board committee—with formal responsibility for finding, screening and/or recommending board candidates. This committee has gained greater acceptance over the past decade; 177 of the 340 companies established such a committee during that period.

Nominating committees are generally seen as having two key functions:

- Reducing the traditionally strong role played by chief executives in selecting board members; and
- Improving and formalizing the process by which board membership needs are assessed and candidates are located and screened.

The survey provided an indication of the effectiveness of these committees. Thirty-four companies gave their assessment of the impact that their nominating committees have had on four factors: the sources from which candidates for board seats are drawn; the director recruitment process as a whole; the mix of talents and perspectives on the board; and the extent to which the board's independence from management has been enhanced.

This information is presented in Table 19. Using as a basis of comparison the companies that checked either "major" or "definite," the committee's strongest positive effect has been on the board recruitment process as a whole; 23 companies cited either a major or a definite impact in this area. Second in such mentions is the mix of experience and talents on the board (18 companies), followed closely by the board's potential for independent judgment (17), and the sources from which board candidates are drawn (16 firms).

Shareholders as a Source of Nominees

The process by which corporate directors are elected has long been criticized as being undemocratic. The chief complaint is that the list of nominees presented to shareholders for a vote is really a "management slate," with no alternative choices offered (or possible even by write-in), and with no feasible access to the proxy, on matters of director nomination, by other parties.

One movement in the direction of a more open nomination and election process involves making it possible for shareholders of the company to suggest candidates for board seats. Over half the surveyed companies—54 percent—now customarily describe, in their proxy material or annual reports, a procedure by which shareholders can propose candidates for the board. Of those 273 companies that follow this practice and provided information on how many shareholder nominations are received each year, only 17 percent—46 companies—get at least one. (These 46 companies constitute only eight percent of the total companies in the survey.) Between them, these 46 firms receive, on average, a total of 120 such nomination proposals a year; the range of proposals received by individual firms is from 1 up to as many as 15, with the median being 3, but the most common by far being 2. Table 20 shows how these shareholder nominations are distributed by industry group.

The number of surveyed companies that have actually included a shareholder-proposed board candidate on a slate presented for a vote is only 19, or four percent of all companies. Only one of these firms reports that such a candidate actually won a board seat, although it is possible that there are other examples that were not reported. In any event, shareholders are not a significant source of qualified board candidates.

The Potential Influence of Institutional Investors

A recent development in the arena of corporate governance is the emerging activism by institutional investors. These holders of large blocks of stock are, of course, shareholders, but their potential power is such that they are now being considered as quite a different constituency than more traditional owners of equity. In particular, their considerable voting power enables them to influence the outcome of matters brought before the shareholders for a vote—including the election of directors.

The survey included a question as to whether institutional holders of the stock of responding firms have either suggested or specifically stated that they wish to play a role in the director selection process. Only 17 companies (three percent) answered in the affirmative, which is an indication that these giant shareholders have not yet used their clout to influence the makeup of boards of companies in which they have invested. Just one company said that it had acceded to a demand by a large shareholder that an outside director be added to its board. The choice of the candidate was left to the company, not dictated by the shareholder.

Terms of Office to which Directors Are Elected

In the 1972 survey, 81 percent of the respondents elected their directors for one-year terms; so the entire board faced election every year. Since then, there has been a dramatic movement away from one-year terms, in favor of boards divided into classes that have staggered terms, with only one class being subject to election in any given year.

Table 21 summarizes this shift. It shows that a slight majority of the current survey sample (as compared with only 17 percent in 1972) now have staggered boards with directors serving three-year terms. Only 41 percent—about half the 1972 percentage—use one-year terms and elect their entire board every year.

As the tabulation below indicates, the use of staggered terms differs according to industry group:

Industry	*Percent of Companies with Terms Other than One Year*
Financial	63%
Manufacturing	57
Nonfinancial service	53

Traditionally, the staggered board was primarily a practice of financial institutions. This system has the advantage of enhancing long-term stability at the board level, which would be seen as a plus by customers of such institutions. And because many financial organizations have large boards,

in some cases over 30 members, staggered terms simplify the proxy statement by reducing the number of directors up for election.

However, the recent trend toward staggered boards is fueled by the high level of takeover activity that has prevailed during much of the past decade. When only part of the board faces election, the ability of a large dissident shareholder or potential corporate raider to use its votes to change the makeup of the board is limited. In short, the staggered board has been pressed into service as a defense against takeovers.

Availability and Use of Cumulative Voting

In the 1972 survey, 32 percent of the respondents had a charter or bylaw provision enabling shareholders to use cumulative voting in the election of directors. This voting method has lost ground since then; only 22 percent of the current survey respondents say that it is available to their shareholders. And one-half of those companies are incorporated in a state that makes cumulative voting a requirement, not an option.

The significance of these figures, like those for staggered boards, is that the ability to vote shares cumulatively can play a role in takeover attempts. By concentrating votes on a particular director or directors, rather than having votes spread evenly across the slate as in straight voting, a raider holding a large block of shares might be able to ensure the election of directors of his choice, despite management's wishes. Getting rid of the cumulative voting option can be accomplished in some states by a bylaw change, or by a change of corporate form (becoming a holding company, as one example). Cumulative voting can also be eliminated by re-incorporating in a state that does not require it (10 percent of companies in the current survey did change their state of incorporation in the past five years, but it is not known whether cumulative voting was an issue in these shifts).

The availability of cumulative voting is somewhat greater in companies in the nonfinancial services area than in other industries, as the following figures illustrate:

How Cumulative Voting Works

Cumulative voting differs from straight or traditional voting in two respects: the number of votes attributed to each shareholder, and the method by which those votes may be used by the shareholder.

Under the traditional method, a holder of 1,000 shares (of voting stock) has 1,000 votes. If he or she votes in favor of the slate of board candidates presented in the proxy, each individual candidate is deemed to have received 1,000 votes. (Some proxies allow a shareholder to withhold votes for one or more nominees, in which case the remaining nominees, assuming the ownership level above, would still receive only 1,000 votes each, no more.)

Under cumulative voting, the total votes a shareholder can cast is equal to the number of voting shares held multiplied by the number of candidates for board seats. Thus, an owner of 1,000 shares who is voting in an election with 12 board seats at stake has 12,000 votes. More important, that shareholder can distribute those votes in any manner he or she chooses. A decision to back the slate as a whole would result in 1,000 votes being cast for each of the nominees—the same result as under traditional voting. But the shareholder could also concentrate votes on selected candidates; in an extreme case, all 12,000 votes could go to a single nominee.

Industry	*Percent of Companies Where Cumulative Voting Is Available*
Nonfinancial services	28%
Manufacturing	19
Financial	19

The power of cumulative voting can be blunted to some extent (as a consequence of mathematical possibilities) by adopting a staggered board and thereby reducing the number of candidates up for election. This may well have been one of the intended results of the switches to the staggered board system.

Table 18: Industries that Most Often Cite Liability as a Recruiting Problem

Industry[1]	*Number of Companies Citing Liability Concerns*	*Percent*
Investment companies	4	40%
Miscellaneous industrial products[2]	4	36
Savings institutions	8	35
Miscellaneous services[3]	11	31
Drugs, pharmaceuticals	5	31
Petroleum	7	30
Electric utility	7	29

[1]Only industries represented by at least 10 companies and having a percentage figure above 20 percent are included. There are 20 industries for which liability was cited but at a lesser frequency, and 9 industries in which *no* companies reported this problem.

[2]Includes such businesses as construction, containers and packaging, textiles, rubber and plastics, office furniture, testing equipment, specialized machinery.

[3]Includes such businesses as healthcare, education, software and data processing, real estate, broadcasting and telecommunications, testing and other technical service, consulting.

Table 19: Effectiveness of the Nominating Committee on Four Factors of Director Selection and Performance, in 34 Companies

	Number of Companies Mentioning Each Effect			
Measure of Committee Effectiveness	*The Recuitment **Process** as a Whole*	*The **Sources** from Which Canidates Are Drawn*	*The **Mix** of Experience and Talents Represented on the Board*	*The Board's Potential for Excercising **Independent Judgment***
Major effect (strong, excellent, extreme, very effective)	5	4	3	2
Definite effect (substantial, significant, positive, good)	18	12	15	15
Minor effect (some, minimal, adequate)	4	11	10	6
Little or none	2	2	3	4
Unknown (or too soon to tell)	1	3	3	4

Table 20: Average Number of Board Nominee Recommendations Received from Shareholders per Year in 46 Companies, by Industry Category[1]

Number of Recommendations per Year	Manufacturing		Financial		Nonfinancial Service	
	Number of Companies	Total Number of Recommendations	Number of Companies	Total Number of Recommendations	Number of Companies	Total Number of Recommendations
1	6	6	4	4	9	9
2	8	16	1	2	7	14
3	2	6	—	—	2	6
4	1	4	—	—	—	—
5	1	5	1	5	—	—
7	—	—	1	7	—	—
8	1	8	—	—	—	—
13	—	—	1	13	—	—
15	1	15	—	—	—	—
Totals	20	60	8	31	18	29

[1]The 46 companies included in this table comprise 17% of companies in the survey that (1) describe to shareholders a procedure for submitting director nomination suggestions *and* (2) reported receiving an average of at least one such recommendation per year. Eighty-three percent of companies that spell out nomination procedures typically receive *no* nominations from shareholders.

Table 21: Terms of Office for Directors, 1972 and 1989

Term of Office	1972 (851 Companies)	1989 (589 Companies)
One year	81%	43%
Three years	17	53
Other	2	4

Chapter 3

Average Ages of Directors, Length of Service, and Retirement Policies

This chapter analyzes the age of directors, looking at the entire board and at outside directors. It also includes information on the average length of service of outside directors of the surveyed firms, as well as data on the prevalence of mandatory board retirement policies and the key features of such policies. All of this information is analyzed by industry and company size where useful. Comparisons with earlier findings are also included.

Average Board Ages

Table 22 summarizes the survey's findings on the average ages of boards (full boards, counting inside as well as outside directors). The medians for the three industry groups are close, with manufacturing showing the highest median at age 59. Tables 23 and 24 provide more detail about the distribution of average board ages.

Today's average board ages are very similar to those in 1972. The overall median then was 58; for the present it is 59.

Average ages of the outside, or nonemployee directors are slightly older than the averages for boards as a whole, meaning that outside directors are typically older, as a group, than the executives serving on the board with them. This slight difference—only a year or so—is true for all three industry groups, as the following tabulation shows:

Industry Group	*Average of Nonemployee Members of Boards (Median)*	*Average Age of Full Board (Median)*
Manufacturing	60	59
Financial	59	58
Nonfinancial service	59	57

Length of Service

In all companies combined, the average length of service of outside directors reported by each company ranges from half a year to as many as 43 years, but the median is nine and the most commonly mentioned (mode) is 10. Over 75 percent have six years or more of average tenure represented in their outside directors; about 10 percent report average service of 15 years or more.

The tenure of outside directors is slightly shorter in nonfinancial service companies, as indicated by the following tabulation of medians for the three industry groups:

Industry Group	*Median Average Years of Service for Outside Directors*
Manufacturing	9
Financial	9
Nonfinancial service	8

Retirement Policies for Nonemployee Directors

Overall, 62 percent of the respondents have a written policy requiring that outside directors retire (or decline to be renominated, or resign) from the board upon reaching a specified age. However, there are differences in the extent to which the three industry groups have adopted this practice:

Industry Groups	*Percent of Companies with a Retirement Policy*
Financial	67%
Nonfinancial service	63
Manufacturing	59

Even more pronounced than industry difference are those related to company size. Table 25 shows that large firms are much more likely than small ones to have established such a policy. Thus, the percentages of firms having a board retirement policy in the $3 billion-and-over category are:

Industry Groups	*Percent of Large Companies with a Retirement Policy*
Nonfinancial service	97%
Manufacturing	93
Financial	84

The prevalence of retirement policies for outside directors has not increased since 1972, and is actually lower for nonmanufacturing companies. Seventy-five percent of all nonmanufacturing companies combined had a policy in 1972,

whereas it can be seen above that the current figure for financial companies is 67 percent and for nonfinancial service firms is 63 percent. In manufacturing, the present figure of 59 percent exactly duplicates the corresponding earlier percentage.

Retirement from the board at age 70 continues to be the leading practice. In fact, 70 has become the overwhelming favorite as the age specified in retirement policies; 71 percent of reported manufacturing company policies require retirement at this age (this figure was about 50 percent in 1972), as do 69 percent of nonfinancial service policies and 52 percent of those in the financial industry.

The second most common director retirement age is 72, and in fact these two ages combined account for between 80 and 90 percent of all policies, depending on industry. Table 26 provides more detail.

Some companies spell out conditions other than age that require a director to leave the board even though he or she has not yet reached the age specified in the policy. One example is a change in the director's occupation or profession that would diminish that person's ability to contribute as a board member, or would create a potential conflict of interest problem. Another example is disability or ill health sufficiently serious to prevent the director from active participation in board affairs.

The extent to which the policies of surveyed companies include such provisions is not measurable. But respondents were asked to indicate wl ether any members of their board had been required to leave the board in the past five years because of factors other than age, and about one-fifth (19 percent) answered in the affirmative. Financial firms had the highest incidence of 'Yes' answers, at 23 percent (the other industries: 17 percent for manufacturing, 18 percent for nonfinancial service).

Table 22: Ranges, Medians and Modes of Average Board Ages[1], by Industry Category

Industry Category	*Range of Average Board Ages*	*Median*	*Mode*
Manufacturing (263 companies)	37-76	59	59
Financial (136 companies)	43-73	58	60
Nonfinancial service (177 companies)	41-69	57	59

[1]Average age of full board, including both employee and nonemployee directors.

Table 23: Average Ages of Boards[1], by Company Size

	Manufacturing		*Financial*		*Nonfinancial Service*	
Average Age of Full Board	*Number of Companies*	*Percent*	*Number of Companies*	*Percent*	*Number of Companies*	*Percent*
Under 50	14	5%	3	2%	11	6%
50-56	62	24%	42	31%	41	23%
57-58	44	17%	27	20%	36	20%
59-60	70	27%	30	22%	41	23%
61-64	60	23%	27	20%	41	23%
65 and over	13	5%	7	5%	7	4%
Totals	263	100%	136	100%	177	100%

[1]Average ages of full board including both employee and nonemployee directors. Average ages having a decimal fraction of .5 or greater have been raised to the next higher age.

Table 24: Medians of Average Ages of Boards; by Company Size[1]

Industry Category	Medians, by Size Category (Millions of Dollars)					
	Under $100	*$100-$199*	*$200-$499*	*$500-$999*	*$1,000-$2,999*	*$3,000 and over*
Manufacturing (263 companies)	54	57	58	59	59.5	60
Finance (136 companies)	61	56	58.5	60	58	58
Nonfinancial service (177 companies)	54.5	54	59	59	59	59

[1]Measured by sales for manufacturing and nonfinancial services; assets for financial.

Table 25: Percent of Companies Having a Written Board Retirement Policy for Nonemployee Directors, by Company Size

Size Category (Millions of Dollars)	Percent of Companies with a Policy		
	Manufacturing (266 Companies)	*Financial (138 Companies)*	*Nonfinancial Service (179 Companies)*
Under $100	7%	50%	15%
100-199	31	43	31
200-499	59	45	62
500-999	58	75	70
1,000-2,999	77	53	80
3,000 and over	93	84	97

[1]Measured by sales for manufacturing and nonfinancial services, assets for financial.

Table 26: Retirement Ages Specified for Nonemployee Directors in Written Policies, by Industry Category

	Manufacturing		*Financial*		*Nonfinancial Service*	
Retirement Age Specified	*Number of Companies*	*Percent*[1]	*Number of Companies*	*Percent*[1]	*Number of Companies*	*Percent*[1]
65	3	2%	10	11%	3	2%
67	2	1	—	—	—	—
68	6	4	4	4	3	1
69	3	2	—	—	1	1
70	109	71	52	56	69	62
71	4	2	1	1	1	1
72	25	16	21	23	31	28
73	1	1	—	—	2	2
75	1	1	4	4	2	2
Totals	154	100%	92	100%	113	100%

[1]Percentage based on companies that *have* a written retirement policy for their outside directors—the companies included in this tabulation—not on all companies.

Chapter 4

Board Meetings

This chapter contains detailed data about the frequency and length of board meetings, when they are held (time of day), meetings held at locations other than the usual one, and meetings held by conference call. Also included are figures for how many meetings a typical member of a board attends, including committee meetings.

Some of the tables on which this chapter is based are from *Corporate Director's Compensation, 1990 Edition* Conference Report No. 936.

Frequency

Boards of financial firms meet more often than do boards in other industries. Table 27 shows that for both the manufacturing and nonfinancial service industries the median annual board meeting frequency is six, while the median in the financial sector is nine.

Table 28, which shows board meeting frequencies by company size, indicates that in the two nonfinancial industry groups the larger companies meet with significantly greater frequency than do their smaller counterparts. This difference is especially pronounced in the largest size bracket ($3 billion and over); boards of the largest manufacturers, for example, meet with a median frequency of nine times a year, compared with five in the smaller brackets. As the table also shows, no particular relationship between the size of a company and how often its board meets exists for financial firms.

Respondents were asked to estimate how the present meeting frequency of their board differs from 10 years ago. Overall, almost two-thirds find no difference; among the remainder, those reporting a shift to fewer meetings somewhat outnumber those who believe their boards meet more often now (21 percent and 15 percent, respectively). These responses are broken out by industry in Table 29; note that the biggest change indicated is that of financial boards toward fewer meetings (24 percent).

Duration

Table 30 gives details on how long meetings of the full board last. In all three industries, the median length of a meeting declines as company size increases; in the largest size bracket, the median board meeting lengths in the three industry groups are:

Industry Group	*Median Length of Board Meetings (Hours) in Large Companies*
Manufacturing	3
Nonfinancial service	2.5
Financial	2

The current survey respondents were asked to estimate change since 10 years ago in the duration of their board meetings. The figures in Table 31 show that the biggest changes in meeting length have occurred in financial firms, chiefly in the direction of longer meetings. Only nine percent of all companies combined report shorter meetings now.

Total Meetings for Typical Directors

The survey included a question aimed at getting a measure of the total meeting load faced by today's board members. Respondents were asked how many meetings in all, including committees, a typical outside director is scheduled to attend, taking into account the particular committee assignments of such a director. The findings appear in Table 32. The table also repeats median figures for board meetings alone, so that the additional requirements due to committee activity can be readily seen. The total figure adds up to 10, 11 or 12 meetings a year, depending on industry.

It was pointed out earlier that in nonfinancial industries the boards of larger companies meet more often than those of smaller firms. Not surprisingly, directors of big companies have to attend more total meetings, including those of committees, than do directors of smaller companies, or even moderate-size ones. Thus, the total-meeting figures for typical directors of companies in the $3 billion-and-over bracket are:

Industry Group	*Total Meetings for Typical Director in Large Companies*
Manufacturing	14
Financial	13
Nonfinancial service	14

Overall, only 13 percent of the respondents say that their directors are attending fewer total meetings than was they did 10 years ago. However, there are industry differences in this regard, as shown in Table 33; in particular, 41 percent

of nonfinancial service companies say that there are more meetings today (the highest such percentage).

The burden of having to attend more meetings is made even more onerous when combined by the finding discussed earlier in the chapter that many companies also report *longer* meetings. On the other hand, the impact of more meetings is eased by the fact that most companies—85 percent overall—tie committee meetings into the schedule for full board meetings in some way so as to minimize the need for additional travel and time. The following figures show how this practice differs by industry:

Industry Group	*Percent of Companies that Coordinate Committee Meetings with Those of the Full Board*
Manufacturing	89%
Nonfinancial service	83
Financial	81

When Meetings Are Held

The greatest number of full-board meetings are scheduled for the morning, as Table 34 shows. The table also indicates that afternoon meetings come in a distant second in frequency, and that roughly half the companies provide directors with at least one meal either preceding or following the meeting itself. Some meals, of course, are actually working sessions.

Respondents describe a variety of approaches to scheduling board committee meetings in conjunction with meetings of the full board; as noted above, most companies make such an arrangement. The most common method is to have committees meet prior to the board meeting, either immediately before (sometimes as a breakfast meeting), or, less often, the evening before. This approach facilitates reporting by committees to the full board on their activities. But in some companies committees convene *after* the full board has met—at lunch, or in the afternoon, in some cases even the following day.

It should be emphasized that the responses indicate a great deal of flexibility in this matter; many companies adapt committee meeting schedules to the number or types of committees involved.

Meetings at Locations Other than the Usual One

A majority of firms—64 percent—customarily hold at least one meeting a year of the full board at a company facility or other location that differs from the usual meeting place. However, this is a practice that differs substantially according to industry, as the following tabulation shows:

Industry Group	*Percent of Companies that Hold at Least One Board Meeting at a Non-Customary Location*
Manufacturing	73%
Nonfinancial service	65
Financial	48

There is also a relationship between company size and the practice of meeting away from home base for nonfinancial firms, as Table 35 illustrates. A director of a manufacturing company with sales of $3 billion or more stands the best chance of attending meetings away from the customary location.

One reason for this practice is to familiarize outside directors with different corporate facilities, including key personnel there. Since manufacturing companies are more likely than other kinds to have far-flung operations, it stands to reason that this industry shows the highest percentage of away-from-home board meetings. Another reason mentioned for this practice is that the boards of some companies convene once a year for an extra-long session, such as two days, and that accommodations for such a meeting are better at a hotel or other meeting facility than at a corporate headquarters. Also, some boards hold their annual organization meeting immediately following the annual shareholders meeting, and the shareholders meeting may well be at a location other than corporate headquarters. At least one firm—a petroleum company—does not even have a single customary location for its board meetings.

Of the 377 companies that do hold at least one board meeting at a non-customary location each year, only 21 use a method or amount of payment for such meetings that differs from that for regular meetings. Some systems mentioned: a per-diem basis rather than the standard fee amount; a bonus payment (such as $200) in addition to the regular fee; double the usual fee (for a two-day meeting).

Conference Call Meetings

Overall, 88 percent of companies use conference telephone calls to some extent in lieu of in-person board meetings, either in emergency or other quick-response situations (by far the most common use) or simply as as occasional way of conducting a conventional scheduled meeting. As Table 36 shows, there are substantial industry differences when it comes to conference calls:

- Financial firms use conference calls least (21 percent say "never");
- Nonfinancial service firms are most likely to use this method as a substitute for a regular meeting (25 percent);
- Manufacturing companies are most likely to use conference calls only in emergency situations.

Table 27: Number of Board Meetings Per Year, by Industry Category, in 805 Companies[1]

Industry Category	*Range of Meeting Frequencies*	*Median*	*Mode*
Manufacturing	2–14	6	4
Financial	2–24	9	12
Nonfinancial service	4–15	6	4

[1]Source: *Corporate Directors' Compensation, 1990 Edition,* Report No. 936, The Conference Board, Inc. 1989.

Table 28: Number of Board Meetings Per Year, by Company Size and Industry, in 805 Companies

Company Size by Sales[2] (Millions of Dollars)	*Frequency of Board Meetings*								
	Manufacturing			*Financial*			*Nonfinancial Service*		
	Range	*Median*	*Mode*	*Range*	*Median*	*Mode[3]*	*Range*	*Median*	*Mode*
Under $100	4–12	5	4	4–12	5.5	4	4–12	5	4
100–199	4–12	5	4	4–13	7.5	4	4–12	6	6
200–499	4–12	5	4	3–18	12	4,12,13	4–14	6	4
500–999	4–12	5	5	4–24	12	12	4–15	6	4
1,000–2,999	2–12	7.5	8	4–15	10	12	4–15	6	6
3,000 and over	3–14	9	10	2–15	8	12	4–13	8	8

[1]Source: *Corporate Director's Compensation, 1990 Edition,* Report No. 936, The Conference Board, 1989.

[2]By assets for financial companies.

[3]If the greatest frequency of mention is common to more than one value, all such values are listed as modes.

Table 29: Board Meeting Frequency Compared with 10 Years Ago, by Industry Category

How Present Meeting Fequency Compares	*Percent of Companies*		
	Manufacturing (248 Companies)	*Financial (132 Companies)*	*Nonfinancial Service (168 Companies)*
The same	65%	62%	65%
Less frequent now	22	24	16
More frequent now	14	14	19

Table 30: Length of Typical Board Meeting in Hours, by Company Size and Industry, in 805 Companies

Company Size by Sales[2] (Millions of Dollars)	Length of Board Meeting (Hours)								
	Manufacturing			Financial			Nonfinancial Service		
	Range	Median	Third[3] Quartile[2]	Range	Median	Third[3] Quartile	Range	Median	Third[3] Quartile
Under $100	1.5–10	4	5	1.5–7	2.75	3	1–11	4	5
100–199	1.5–8	3	4	1–5	2.5	3	2–5	3	4
200–499	1–8	3	4	1–7	2.75	3.5	1–8	3	3.3
500–999	2–10	3	4	1.5–5	3	3	.5–8	3	3
1,000–2,999	1.5–8	3	3	.5–5	2	3	1.5–6.5	3	4
3,000 and over	1.5–6	3	3	.5–8	2	3	1–4	2.5	3

[1]Source: *Corporate Director's Compensation, 1990 Edition,* Report No. 936, The Conference Board

[2]By assets for financial companies.

[3]Figure for company at, or nearest above, 75 percent point in range.

Table 31: Length of Board Meetings Compared with 10 Years Ago, by Industry Category

How Present Meeting Length Compares	Percent of Companies		
	Manufacturing (226 Companies)	Financial (130 Companies)	Nonfinancial Service (158 Companies)
The same	66%	48%	64%
Longer now	27	39	29
Shorter now	8	13	7

Table 32: Median Number of Meetings Attended by Outside Directors, by Industry Category

Industry Category	Median Number of Board Meetings	Median Total Number of Meetings (Board and Committees)
Manufacturing (250 companies)	6	10
Financial (128 companies)	9	12
Nonfinancial service (175 companies)	6	11

Table 33: Total Number of Meetings Attended by Outside Directors Compared with 10 Years Ago, by Industry Category

How Total Number of Meetings Compares	*Percent of Companies*		
	Manufacturing (232 Companies)	*Financial (125 Companies)*	*Nonfinancial Service (163 Companies)*
Same number now	56%	55%	51%
More now	31	27	41
Fewer now	13	18	9

Table 34: When Board Meetings are Held,in 574 Companies

Meeting Time	*Number of Companies*		*Percent*
Mornings:			
Followed by lunch	174		
Meal not mentioned	170		
Preceded by breakfast	13		
Preceded by dinner the night before	5		
Total morning meetings		362	63%
Afternoon:			
Meal not mentioned	51		
Preceded by lunch	49		
Followed by dinner	2		
Total afternoon meetings		102	18%
Morning or afternoon meetings (varies)		52	9%
All day:			
Meal not mentioned	33		
Followed by dinner	4		
Total all day		37	6%
More than one day		9	2%
Evenings		4	1%
Other		8	1%
		574	100%

Table 35: Percent of Companies Whose Boards Meet at Least Once Annually at a Non-customary Location, by Company Size

Size Category[1] (Millions of Dollars)	*Percent of Companies*		
	Manufacturing (266 Companies)	*Financial (140 Companies)*	*Nonfinancial Service (180 Companies)*
Under $100	52%	67%	44%
100-199	59	14	50
200-499	67	45	65
500-999	73	8	73
1,000-2,999	80	56	56
3,000 and over	92	54	85

[1]Measured by sales for manufacturing and nonfinancial services, assets for financial.

Table 36: Use of Telephone Conference-Call Meetings, by Industry Category

When Conference-Call Meetings Are Used	*Percent of Companies*		
	Manufacturing (264 Companies)	*Financial (140 Companies)*	*Nonfinancial Service (183 Companies)*
Only in emergencies or quick-response situations	74%	67%	65%
Occasionally (in lieu of a conventional scheduled meeting)	18	11	25
Never used	8	21	10

Chapter 5

Committees of the Board

The source of most of the information in this chapter is *Corporate Directors' Compensation, 1990 Edition*, which also provided some of the figures in the preceding chapter.

Per-company Incidence of Board Committees

Almost every company surveyed has at least one board committee (99 percent); about 85 percent have more than two. Details on numbers of committees—by industry, and by company size—are presented in Tables 37 and 38. The first table shows that about five percent of companies have as many as seven or eight committees (no company reported more than eight), but the largest concentration, in all three industry categories, is of companies that have either three or four. In Table 38 it can be seen that in the nonfinancial industries there is a relationship between company size and the number of committees a board is likely to have; five committees is both the median and the mode for both manufacturing and nonfinancial service firms in the largest bracket, while for financial firms these two figures are four and three, respectively.

Types of Committees

Table 39 tracks the relative frequency of individual board committees as measured by Conference Board surveys over a period of years. Found in 97 percent of the 1989 sampling, the audit committee leads the way it is. Note that this committee has been the most common one since its ascendancy in the mid-1970s. The table also indicates that figures for other committees have changed little, overall, since the mid-1980s. However, Table 40 does show some differences for a few committees when industry is taken into account. These are mostly instances in which practice in the financial institutions varies from that of nonfinancial companies. Specifically, compensation committees are definitely less popular in the financial area, as are finance committees, but executive, human resource and investment committees are *more* prevalent in financial firms.

Size of Committees

Table 41 presents detailed information about the size of board committees (how many directors serve on them). The ranges indicate a large spread from a single one-man/woman committee to committees that have a dozen or more members. But medians for most committees are either four or five members. The table also shows higher medians in the financial industry for four of the most important committees:

- compensation
- executive
- nominating
- finance.

From Table 42, which gives median committee sizes according to company size, it is clear that committees are somewhat larger in the larger companies. Among companies in the largest size bracket, most committees have medians of five or six members.

Frequency of Meetings

Table 43 contains details on how often the principal committees meet, broken out by industry group. This table indicates that:

- For most committees, a wide range of meeting frequencies was reported. Some companies have committees that meet only as required or on call. At the other extreme are very active committees that meet on a weekly basis. The executive committee has a spread that includes both of these extremes.
- Medians (and also modes) of committee meeting frequencies are very similar for manufacturing and nonfinancial service companies, especially for the first five committees listed—which are the only ones found in at least 25 percent of responding companies. The table also demonstrates that

the schedules of financial company board committees are busier than those in the nonfinancial categories.

Like a number of other aspects of board practice, committee meeting frequency bears a relationship to company size—except for financial firms. This can be seen in Table 44. Altogether, a median meeting frequency of twice a year is reported slightly more often than any other. Median frequencies of three times a year and quarterly come in second and third.

Number of Committees on which a Typical Outside Director Serves

Each respondent was asked to indicate how many board committees a typical member of their board serves on. In all three industry groups, both the median and the mode for number of committees is two. However, figures are very different in the industries for typical directors serving on three or more committees. That figure is only 10 percent in financial firms, but is 16 percent in the other categories.

Table 37: Number of Board Committees per Company, by Industry Category

Number of Committees	*Percent of Companies*		
	Manufacturing (334 Companies)	*Financial (207 Companies)*	*Nonfinancial Service (252 Companies)*
3 or 4	51%	49%	55%
5 or 6	27	32	29
1 or 2	16	14	13
7 or 8	6	5	3
Medians	4	4	4

Table 38: Number of Board Committees Per Company, by Company Size

	Company Size Categories[1] (Millions of Dollars)					
	Under $100	*$100–$199*	*$200–$499*	*$500–$999*	*$1,000–$2,999*	*$3,000 and over*
	335 Manufacturing Companies					
Number of companies in each category	45	27	57	42	77	87
Range of number of committees reported	1–5	1–5	1–6	1–7	1–8	2–7
Median number of committees reported	3	3	3	4	4	5
Mode[2]	3	3	4	3,4	5	5
	208 Financial Companies					
Number of companies in each category	7	13	26	21	36	105
Range of number of committees reported	1–6	1–7	2–8	2–8	1–8	1–8
Median number of committees reported	3	3	4	5	4	4
Mode[2]	3	3	4	4	4	3
	251 Nonfinancial Service Companies					
Number of companies in each category	36	25	40	47	55	48
Range of number of committees reported	1–5	1–7	1–7	1–6	2–8	3–7
Median number of committees reported	3	3	4	4	4	5
Mode[2]	2	3	4	4	4,5	5

[1]Measured in sales for manufacturing and nonfinancial services, assets for financial.

[2]If the greatest frequency of mention is common to more than one value, all such values are listed as modes.

Table 39: Prevalence of Most Common Committees of the Board

	Numbers of Companies that Responded and Percent that Reported Having Each Committee[1]									
	1961	*1966*	*1972*	*1977*	*1979*	*1981*	*1983*	*1985*	*1987*	*1989*
Committees	*453 cos.*	*748 cos.*	*853 cos.*	*855 cos.*	*1,008 cos.*	*1,064 cos.*	*1,000 cos.*	*956 cos.*	*923 cos.*	*805 cos.*
Audit	15%	24%	45%	90%	85%	88%	96%	97%	97%	97%
Compensation	30	51	69	74	73	78	86	85	84	82
Executive	74	71	76	N/A	59	63	74	71	71	71
Nominating	2	7	8	15	32	43	48	50	48	49
Finance	14	22	24	N/A	20	25	28	28	26	27
Pension/Benefits	—	—	13	24	21	20	22	21	20	18
Stock Option	25	43	46	N/A	14	12	17	15	15	13
Public Policy	—	—	1	7	10	13	12	13	10	11
Planning	—	—	N/A	N/A	N/A	N/A	6	6	6	7
Contributions	—	—	N/A	N/A	N/A	N/A	4	3	4	3
Human Resources	—	—	N/A	N/A	N/A	N/A	4	5	6	6
Investment	—	—	N/A	N/A	N/A	N/A	N/A	8	8	8

[1]Conference Board surveys.

Table 40: Prevalence of Most Common Committees of the Board, by Industry Category

	Manufacturing (335 Companies)		*Financial (208 Companies)*		*Nonfinancial Service (252 Companies)*	
Committee	*Companies*	*Percent*	*Companies*	*Percent*	*Companies*	*Percent*
Audit	328	98%	203	98%	249	99%
Compensation	296	88	146	70	214	85
Executive	224	67	166	80	175	69
Nominating	177	53	99	48	115	46
Finance	92	28	44	21	80	32
Employee benefits/pension	62	19	35	17	49	19
Public policy	40	12	21	10	24	10
Stock option	45	13	34	16	27	11
Planning	16	5	18	9	21	8
Human resources	15	5	23	11	10	4
Investment	13	4	41	20	11	4
Contributions	10	3	11	5	5	2

Table 41: Size of Board Committees, by Industry Category

	Number of Committee Members					
	Manufacturing		Financial		Nonfinancial Service	
Committee	Range	Median	Range	Median	Range	Median
Audit	1–9	4	1–14	4	2–9	4
Compensation	1–13	4	1–12	4.5	2–13	4
Executive	1–13	5	2–16	5.5	1–11	5
Nominating	1–13	4	1–13	5	1–10	4
Finance	1–10	5	1–12	6	1–11	5
Employee benefits/pension	1–7	4	1–9	4	2–8	4
Public policy	2–13	5	3–9	5	2–9	5
Stock option	1–12	3	2–7	4	3–5	4
Planning	1–10	5	1[a]	1[a]	1–8	4
Investment	1–9	4	1–15	5	3–8	4
Contributions	1–5	3	2–9	5	3–7	4.5
Human resources	3–6	4	2–9	5	3–7	5

[a]One company.

Table 42: Median Size of Board Committees, by Company Size, In 797 Companies

	Median Number of Members on Committee, by Company Size Category (Millions of Dollars)					
Committee	Under $100	$100–$199	$200–$499	$500–$999	$1,000–$2,999	$3,000 and over
Audit	3	3	4	4	4	5
Compensation	3	3	3	4	4	5
Executive	4	4	4	5	5	5
Nominating	3.5	3	4	4	4	5
Finance	3	4.5	5	4	5	6
Employee benefits/pension	3	4	4	4	4	5
Public policy	5	6	—	4	5	5
Stock option	3	3	3	3	3	4
Planning	4	2.5	5	4	2.5	6
Investment	5	5	4.5	3	4	5
Contribution	—	4	2	4.5	3	4.5
Human resources	—	4	5	4	4	5

Table 43: Number of Meetings Per Year of Principal Committees, by Industry Category

	Manufacturing Companies			*Financial Companies*			*Nonfinancial Service Companies*		
Committee	*Range of Meeting Frequencies*	*Median*	*Mode*[1]	*Range of Meeting Frequencies*	*Median*	*Mode*[1]	*Range of Meeting Frequencies*	*Median*	*Mode*[1]
Audit	1–17	3	2	1–12	4	4	1–10	3	2
Compensation	1–11	3	2	1–12	3.5	4	1–9	3	2
Executive	0–40	2	1	0–52	4	12	0–50	2	1
Nominating	0–6	2	1	0–7	1	1	0–6	1	1
Finance	0–12	4	4	2–12	12	12	1–8	3.5	4
Employee benefits/ pension	1–6	2	2	0–12	2	1	1–15	3	2
Public policy	1–10	3	2	1–5	3	4	1–5	2	1
Stock option	0–12	2	1,2	1–7	1	1	0–10	2	1
Planning	0–7	2	2	0–4	2	1,2,4	0–50	2	2
Human resources	1–9	3	1,3	2–12	5	6	2–7	6	6
Investment	2–11	4	4	1–52	4	4	1–5	4	4
Contributions	1–8	1.5	1	1–3	1.5	1	2–6	3	2,3

[1]If the greatest frequency of mention is common to more than one value, all such values are listed as modes.

Table 44: Number of Meetings Per Year of Six Principal Committees, by Company Size

Committee	Company Size Categories[1] (Millions of Dollars)					
	Under $100	*$100-$199*	*$200-$499*	*$500-$999*	*$1,000-$2,999*	*$3,000 and over*
			Manufacturing Companies			
Audit						
Range of meeting frequencies	1-4	1-5	1-6	2-6	1-6	1-7
Median	2	2	2	3	3	3
Compensation						
Range of meeting frequencies	1-5	1-4	1-5	1-6	1-11	1-11
Median	2	2	2	3	4	4
Executive						
Range of meeting frequencies	0-20	0-12	0-10	0-7	0-25	0-40
Median	1	3	2	1	1	2
Nominating						
Range of meeting frequencies	1-2	1-3	0-4	1-5	0-5	0-6
Median	1	1	1	2	2	2
Finance						
Range of meeting frequencies	—	—	1-2	—	2-8	0-12
Median	—	—	1.5	—	4.5	4
Employee benefits/pension						
Range of meeting frequencies	4	1-4	1-5	1-5	1-6	1-5
Median	4	2	2	2	3	3
			Financial Companies			
Audit						
Range of meeting frequencies	1-4	2-12	1-10	2-12	1-12	2-12
Median	2	4	3	4	4	4
Compensation						
Range of meeting frequencies	1-4	1-5	1-4	1-5	1-12	1-10
Median	3.5	2.5	2	2	4	4
Executive						
Range of meeting frequencies	1-4	0-24	0-52	0-52	1-52	0-52
Median	3.5	4	3.5	3	10	4
Nominating						
Range of meeting frequencies	1	1-2	1-3	0-2	1–5	0-7
Median	1	1	2	1	1.5	2
Finance						
Range of meeting frequencies	—	—	—	2-12	—	12
Median	—	—	—	7	—	12
Employee benefits/pension						
Range of meeting frequencies	—	2	1-4	1-4	1-12	0-5
Median	—	2	1	2	3	2
			Nonfinancial Service Companies			
Audit						
Range of meeting frequencies	1-10	2-6	1-5	1-6	1-8	2-6
Median	2	3	3	3	3	3
Compensation						
Range of meeting frequencies	1-6	1-7	1-7	1-6	1-7	1-9
Median	2	3	3	3	3	4
Executive						
Range of meeting frequencies	0-15	1-10	0-12	0-12	0-24	0-50
Median	4	4	2	2	2	2
Nominating						
Range of meeting frequencies	1-2	1-4	1-4	0-4	1-60	1-9
Median	1	1	2	1	1	2
Finance						
Range of meeting frequencies	1-4	1-3	1-7	1-3	2-6	2-8
Median	4	2	4	1	4	4
Employee benefits/pension						
Range of meeting frequencies	1-4	1-6	2-15	1-4	1-4	1-12
Median	2	3	3	3.5	2.5	3

[1]Measured in sales for manufacturing and nonfinancial services, assets for financial firms.

Chapter 6

Other Practices and Information

This chapter deals with a variety of practices: the position of board chairman; staff assistance assigned to boards; indoctrination of new board members; honorary or emeritus directors; advisory boards; and the practice of limiting outside board memberships held by company personnel.

Board Chairmen

Nearly every surveyed company (93 percent) reported having a board chairman. (In the remaining companies there is no provision for such a position or title or else the position had no incumbent as of the time of the survey.) In a majority of these 547 companies with a chairman, the chief executive officer holds the title:

Relationship of Chairman and CEO	*Percent of Chairmen*
Chairman is also chief executive officer	76%
Chairman is a person other than the CEO	24

It is useful to examine the first of these figures on an industry basis:

Industry	*Percent of Chairmen Who Are Also CEO*
Manufacturing	78%
Nonfinancial service	76
Financial	70

Table 45 presents a company-size breakdown of the prevalence of chairman-CEOs. For the most part, the practice of combining these titles appears to be unrelated to company size, with the exception that chairman-CEOs are most common in the very largest manufacturing and financial companies—in particular, manufacturing companies (92 percent).

In more than half (57 percent) of those companies where the chairman is not also the chief executive, the chairman position is not a full-time job.

Staff Assistance Assigned to Boards

Respondents were asked whether there is a staff or administrative person in their organization whose major assignment is to provide information, meeting organization, and other assistance or liaison to the board. Overall, 49 percent answered in the affirmative. Financial companies, in particular, have made such assignments:

Industry	*Percent of Companies that Have Made Staff Assignments*
Financial	60%
Nonfinancial service	49
Manufacturing	44

Not surprisingly, as Table 46 shows, the largest companies are the ones that have been leading the way in making staff assistance to the board a major assignment of someone in the organization.

Some firms have created a position with a title that clearly indicates a responsibility to provide the board with liaison and support. Some examples of such titles:

- Manager,
- Board Affairs
- Secretary to (or of) the Board
- Executive Assistant to the Board,
- Manager of Director and Shareholder Relations,
- Director Liaison.

However, a majority of the companies that reported having made board support a major assignment, made the corporate secretary or, less frequently, an assistant corporate secretary responsible. A number of companies cite a person with an executive or administrative title, sometimes located in the office of the chief executive. In a few cases, the general counsel or an assistant general counsel is the chief provider of staff support. The accompanying box contains further

Where the Board's Staff Assistance Comes From

As pointed out in the text, 49 percent of the respondents say they have a person for whom staff assistance or liaison to the board is a major responsibility. In more than three-fourths of these companies it is the corporate secretary or an assistant corporate secretary who is the chief provider of services and support the board. The text also notes that a few firms have created a new staff position to ensure that their board receives appropriate support.

The third approach is to assign this task to an officer or staff member (other than the corporate secretary) who has another principal function. Listed below are those people named by 196 manufacturing and financial companies using this approach:

Legal
- General Counsel (10 companies; in a few cases, Corporate Secretary is a second title)
- Corporate and Patent Law Administrator
- Legal Assistant
- Director of Corporate Compliance
- Paralegal

Administrator
- Administrative Assistant (3 companies)
- Vice President, Chief Administrative Officer and Secretary
- Vice President—Administration and General Counsel
- Corporate Administrator and Assistant Secretary
- Executive Assistant

Financial
- Chief Financial Officer (5 companies)
- Treasurer

Chairman or Chief Executive's Officer
- Executive Vice President, Office of the Chairman
- Administrative Assistant to the Chairman
- Assistant to the Chairman
- Executive Assistant to the Chief Executive

Other
- President and Chief Operating Officer
- Executive Vice President (no function indicated)
- Manager, Executive Services

examples of where companies have chosen to assign staff assistance to the board (and its committees).

Familiarizing New Directors with Company and Board Information

Only about a third of the respondents (32 percent) have established a standardized procedure for making newly elected directors knowledgeable about the company and about board duties and procedures. The majority describe their approach to familiarizing new directors with these matters either as fairly consistent but not standardized (38 percent), or else as being variable according to circumstances (30 percent).

Financial firms have been a little more active in this regard, since 36 percent of them have a standardized procedure, and only 25 percent say the process is basically variable.

Honorary Directors

Thirty-two percent of the respondents have a provision for conferring honorary or emeritus status on directors who retire from active board service. This figure is almost unchanged from the 30 percent reported in 1972.

Of the 181 companies that have a policy for designating honorary directors, over one-fourth (27 percent) did not actually have any such directors as of the time of completing the questionnaire. Among those that *did* report at least one, the number of honorary directors ranges to as high as 36, but the median is two.

Financial firms are significantly more inclined to designate honorary or emeritus directors than are other companies; 40 percent do, as compared to 30 percent of nonfinancial service companies and 28 percent of manufacturers.

Advisory Boards

Fifty-two companies, or slightly under 10 percent, have an external advisory board (or council, or committee) in addition to, and entirely separate from, their board of directors. However, the advisory board has been adopted far more often by financial firms than by others, and, in fact, more than half of the advisory boards or councils reported are in the financial sector. The percentages of companies having such an advisory group, by industry, are:

Industry	*Percent of Companies that Have an Advisory Board*
Financial	20%
Manufacturing	7
Nonfinancial service	3

Advisory boards usually have a focus: a designated area of interest or concern in which the company hopes to gain helpful advice, or useful contacts, or both. Table 47 shows that the focus of these groups tends to differ markedly according to industry. A majority of the financial-company advisory bodies have a domestic regional focus; in manufacturing, scientific and international advisory boards predominate.

The advisory board has been very much a creature of the 1980s, as the following tabulation—based on the 40 companies that provided a founding date—indicates:

When the Advisory Board Was Established	*Number of Companies*
Before 1975	7
1975-1979	5
1980-1984	17
1985-1989	11

Limiting Outside Board Memberships

Overall, just under 10 percent of the respondents (48 companies) practice the policy of limiting the number of outside board memberships that an executive (or other employee) may hold at one time. Most of these policies affect only corporate boards, but 10 companies also consider not-for-profit boards for this purpose.

A tabulation by industry shows this practice to be somewhat more prevalent among financial firms:

Industry	*Percent of Companies that Limit Directorships*
Financial	13%
Manufacturing	8
Nonfinancial service	6

Table 45: Companies Whose Chief Executive Officer Is Also Chairman of the Board

	Percent of Companies by Size Category (Millions of Dollars)					
Industry	*Under $100*	*$100–$199*	*$200–$499*	*$500–$999*	*$1,000–$2,999*	*$3,000 and over*
Manufacturing (197 companies)	66%	72%	75%	58%	69%	92%
Financial (92 companies)	67	29	60	42	63	78
Nonfinancial service (125 companies)	69	63	63	57	81	74

[1]Measured by sales for manufacturing and nonfinancial services, assets for financial.

Table 46: Companies Having a Staff Person Whose Major Assignment Is to Assist or Support the Board

	Percent of Companies by Size Category[1] (Millions of Dollars)					
Industry	*Under $100*	*$100–$199*	*$200–$499*	*$500–$999*	*$1,000–$2,999*	*$3,000 and over*
Manufacturing (257 companies)	18%	38%	45%	24%	46%	62%
Financial (136 companies)	33	29	45	33	72	65
Nonfinancial service (174 companies)	35	25	47	50	36	74

[1]Measured by sales for manufacturing and nonfinancial services, assets for financial.

Table 47: Types of Advisory Boards, by Industry Category

	Number and Percent of Companies					
	Manufacturing		Financial		Nonfinancial Service	
Type of Advisory Board	Number of Companies	Percent	Number of Companies	Percent	Number of Companies	Percent
Regional (domestic)	2	12%	16	59%	2	33%
Scientific	7	41	—	—	2	33
International	5	29	2	7	—	—
General, broad	3	18	3	11	—	—
Other	—	—	6	22	2	33
Totals	17	100%	27	100%	6	100%